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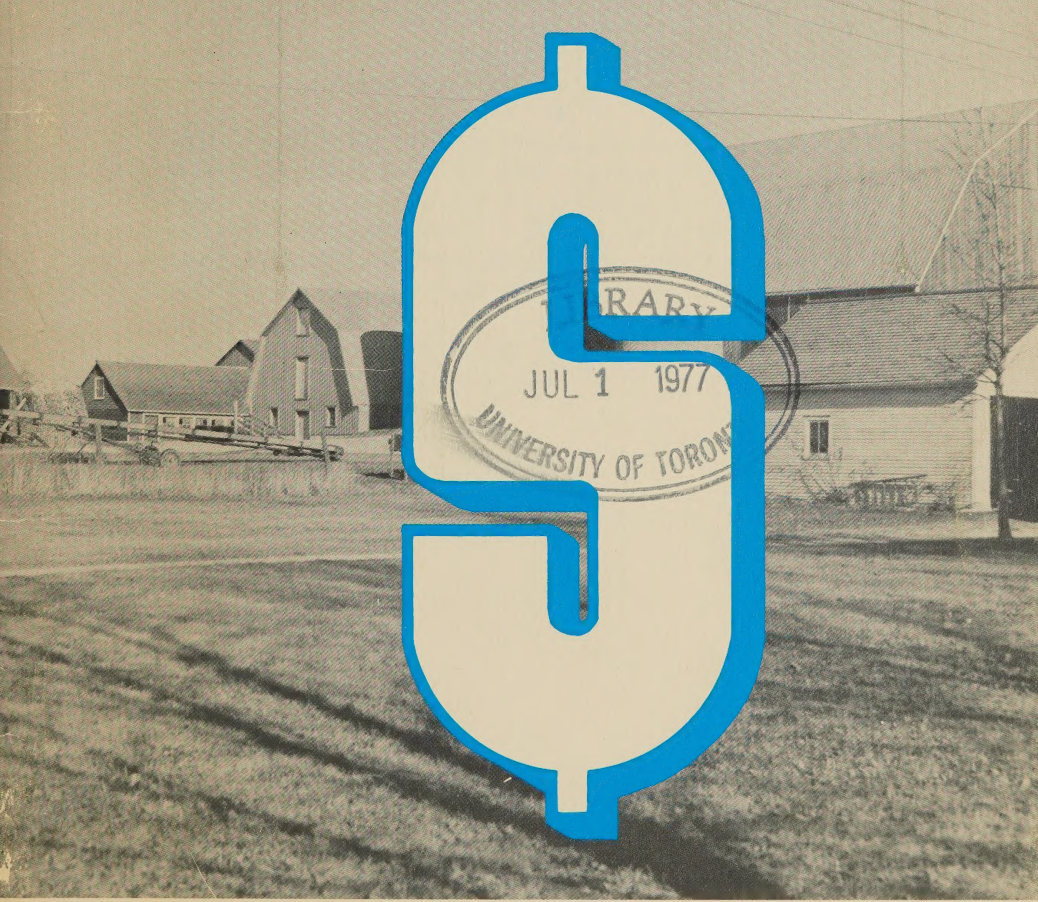
FARM CREDIT in ONTARIO



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FARM CREDIT IN ONTARIO

WHERE TO GET IT AND HOW TO USE IT

The Ontario Ministry of Agriculture and Food encourages farmers to seek credit counseling. Every county and district office of the Ontario Ministry of Agriculture and Food has farm management specialists willing to discuss the management of your farm and advise on the type of credit most suitable for your farm operation. This publication and Publication 379, *Money Matters,* are sources of information on credit use and would provide useful guidelines to farmers who need additional credit.

This revised publication has been prepared to provide a ready reference on sources of credit for farmers in financing their farm operations. This edition has been prepared by: P. A. Wright, School of Agricultural Economics and Extension Education, University of Guelph, R. S. Winslade and D. H. Miles, Area Coordinators and Farm Management Specialists; and R. G. F. Hill of the Economics Branch, Ontario Ministry of Agriculture and Food.

The authors thank all contributors to this publication, including the authors and contributors to previous editions.

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INTRODUCTION

Farm capital requirements in Ontario are increasing at a rapid rate; the average real estate value per farm has increased more than 150% in the last ten years. Nearly seven billion dollars are invested in Ontario commercial farms in farm real estate, livestock, and equipment. Much more money is required for feed supplies, operating expenses, and the expenses of personal living.

In a recent study[1] three-quarters of the farms surveyed were mortgaged at some time during the present operator's tenure. Half of the current mortgages were held by private individuals and the balance by institutional lenders such as government agencies, loan companies, banks, and credit unions.

Since credit may cost farmers anywhere up to 25% annually, including interest and other charges, it is desirable that borrowers understand the purpose for which different types of credit are designed, and the terms and conditions under which they may be secured.

This publication is intended to be a ready reference for the wise use of credit. It provides you with a better understanding of the costs of credit, the types of loans available, sources of credit, and the preparation of a credit plan.

[1] *Farm Mortgages in Ontario 1972,* Henry F. Noble, Economics Branch, Ontario Ministry of Agriculture and Food

CREDIT ATTITUDES

Credit is the farmer's ability to sell debt or borrow capital. It is another asset that the farmer must manage.

Today's farmer views credit as a tool in the business of farming. He realizes that it takes money to make money and is prepared to pay the price of using credit. He is aware that credit is like a fire — a good servant but a bad master.

Some farmers have considered it a mark of disgrace to be in debt and, therefore use credit as a last resort. Feeling uneasy about owing money, they use credit only in emergencies or in safe situations. If they do borrow, they may attempt to repay a loan too quickly leading to financial problems. Without a sufficient supply of capital, these farmers will likely forego many profitable opportunities, thus reducing their earning potential.

Still others ask only "Where can I get a loan?" They have not considered fully the risks and costs involved and end up beyond their depth, unable to carry the load.

The business-oriented farmer, who uses credit or borrowed capital to create an efficient and profitable farm, has an attitude between these extremes. He has learned about credit and uses it like any other farm asset. He is as familiar and as comfortable with credit use as he is with crop production and livestock management, realizing that a balance of all three is necessary for a profitable farm operation.

PRINCIPLES OF SOUND INVESTMENT AND CREDIT USE

How do we use credit properly? Consider the three R's of credit — Return, Risk, Repayments.

Return

One of the first rules of credit is: use it for productive purposes. Borrowed funds should be used primarily for purposes that will increase net income. Cash income must be sufficient for farm operating expenses, replacing depreciable assets, family living expenses, and debt retirement. How do you tell when it's profitable to use credit? It requires good budgeting or financial planning. It is a management job, and if you are not willing to do it you have reduced your chances of using credit successfully.

Risk

Risk must be accepted by the farmer. Borrowing reduces the equity in the business. Less risk is involved when the ratio of current assets to current liabilities is high. However, a strong equity position may often be out of balance by having too much capital tied up in fixed assets and too little in current assets or working capital for paying the bills and developing the business.

Insurance is one way of reducing risks. There are many kinds of insurance — crop, liability, property, health, life, etc. Money managers must look critically at insurance and decide whether to direct some money this way, or gamble on getting by without this protection and use the money elsewhere. In many cases the decision shouldn't be difficult; for instance, the added cost of $1 per acre crop insurance against the risk of losing your white bean crop from any number of natural causes is a real buy.

Credit reserve reduces financial risk. Borrowing to the limit leaves no room for unforeseen circumstances. The greater the risk, the larger the need for a borrower to use insurance.

Repayment

Credit repayment capacity is the amount of money you have each year to service debt. This is the amount of money available to pay principal and interest on loans after all other cash expenses and family living have been provided for. The length of term should correspond to the length of time to recover the borrowed capital, with a margin for safety. The repayment schedule should fit the flow of income from the invested loan.

- Match the length of loan to the reproductive life of the asset. Longer loans mean more total money to pay back, but the benefits of spreading out the payments usually outweigh the extra cost.

- Try to match payments to income from the use of the loan. For dairy cows, repay some of the loan from each milk cheque; for market stock and crops, make payment when you sell them.

- To do credit planning you must know the total credit commitment for the farm business.

The farm operating statement, such as those available for income tax records, can provide the basis for determining the repayment capacity of your farm. Some minor adjustments will be necessary. Once you calculate your debt repayment capacity, Tables1 and 1a can be used to determine the size of loan you can handle at a given interest rate over a certain period of time. An example might be as follows:

Budget:	Cash income	$70,000
	Cash costs	$51,000
	Net cash income	$19,000
	Less principal payments already committed	$ 8,000
	Less family living	$ 7,000
	Available to service additional debt	$ 4,000

On a consistent Net Cash Income and committed principal payments, the $4,000 at 10% interest rate would service four times $3,791 or $15,164 over five years. The $4,000 would service four times $6,144 or $24,576 over 10 years. Obviously a large investment must either be spread over a greater number of years or produce a larger amount of funds available to service debt.

TABLE 1. DEBT CAPACITY PER $1,000 ANNUAL PAYMENT

	Interest Rate					
Years	4%	5%	6%	7%	8%	9%
5		4,330	4.212	4,100	3,993	3,890
10	8,111	7,722	7,360	7,024	6,710	6,417
15	11,118	10,378	9,712	9,108	8,559	8,065
20	13,590	12,462	11,470	10,594	9,818	9,128
25	15,622	14,094	12,783	11,654	10,675	9,823
30	17,292	15,372	13,765	12,409	11,257	10,273
35	18,665	16,374	14,498	12,948	11,654	10,566
40	19,793	17,159	15,046	13,332	11,925	10,557
*	25,000	20,000	16,667	14,286	12,500	11,111

* Interest payment only, no payment of debt

TABLE 1a DEBT CAPACITY PER $1,000 ANNUAL PAYMENT

Years	10%	11%	12%	13%	14%	15%
5	3,791	3,695	3,605	3,517	3,433	3,352
10	6,144	5,889	5,650	5,426	5,216	5,017
15	7,606	7,189	6,812	6,464	6,142	5,848
20	8,514	7,962	7,468	7,022	6,622	6,258
25	9,077	8,424	7,843	7,331	6,873	6,464
30	9,427	8,695	8,058	7,496	7,003	6,566
35	9,644	8,857	8,177	7,587	7,072	6,618
40	9,779	8,952	8,244	7,633	7,107	6,640
*	10,000	9,091	8,333	7,692	7,143	6,667

* Interest payment only, no payment of debt

COSTS OF CREDIT

Variations in loan terms are significant. Reputable lenders usually are more willing and able to make adjustments. Their costs and terms may be more reasonable.

INTEREST

Interest is the price paid for the use of money or capital. It includes:

1. the cost of delaying the use of money;
2. the risk of losing the money loaned;
3. management and other costs in making and servicing a loan.

Interest is computed in different ways:

(a) Interest on the Unpaid Balance

Interest payments are always calculated on the amount of principal owing at the time of the payment. Various terms are used, such as simple, compound, true, actuarial, nominal, and effective. The different terms basically apply to different methods of payment. For example, simple interest refers to a loan where only one interest payment is made when the loan matures. True interest is the rate applied to the principal at each payment period. Interest on the unpaid balance is the least costly type. (See Table 2.)

(b) Add-on or Instalment Interest

Interest is calculated on the original loan throughout the payment period. Principal payments that are made during the loan period are disregarded in computing the interest charge. This is a more expensive form of interest.

(c) Discounted Loans

Interest is deducted in advance. This is more costly than (a) but less costly than (b). For example if you borrow $1,200 at 12% interest to be repaid in one payment in 12 months, the $144 interest will be deducted in advance and you will actually receive $1,056. You will repay $1,200 twelve months later. The effective annual interest rate is 13.6%.

TABLE 2. REPAYMENT SCHEDULE AND COSTS OF A $1,200 LOAN AT 12% REPAID IN 12 MONTHLY INSTALMENTS FOR TWO TYPES OF INTEREST

	Unpaid Balance Type			Add-on Type		
Month	Principal	Interest	Total	Principal	Interest	Total
1	$100	$12	$112	$100	$12	$112
2	100	11	111	100	12	112
3	100	10	110	100	12	112
4	100	9	109	100	12	112
5	100	8	108	100	12	112
6	100	7	107	100	12	112
7	100	6	106	100	12	112
8	100	5	105	100	12	112
9	100	4	104	100	12	112
10	100	3	103	100	12	112
11	100	2	102	100	12	112
12	100	1	101	100	12	112
Totals	1,200	78	1,278	1,200	144	1,344
Effective annual interest rate			12%			22% *

* See formula under "Calculating the Cost of Credit," page 12

Rate of Interest and the Cost of Credit

The rate of interest in addition to the repayment period has a significant influence on the total cost of the loan and the amount of each payment. Table 3 illustrates amortization. Annual payments for a $1,000 loan repayable over 10 years at 7% amounts to $142.38, compared with $162.75 if the rate of interest was 10%. This amounts to a difference in the annual payments of $20.37. On a $15,000 loan at 10% interest, repayments would cost $305.55 more each year than if the interest rate was 7%. This would amount to an additional cost of $3,055.50 over the 10-year period.

TABLE 3. ANNUAL PAYMENTS TO AMORTIZE A LOAN OF $1,000 EVEN-PAYMENT PLAN

	Interest Rate					
Years	6%	7%	8%	9%	10%	12%
5	237.40	243.89	250.46	257.10	263.80	277.41
10	135.87	142.38	149.03	155.82	162.75	176.98
15	102.96	109.79	116.83	124.06	131.47	146.82
20	87.18	94.39	101.85	109.55	117.46	133.88
25	78.23	85.81	93.68	101.81	110.17	127.50
29	73.58	81.45	89.62	98.06	106.73	124.66
30	72.65	80.59	88.83	97.34	106.08	124.14
35	68.97	77.23	85.80	94.64	103.69	122.32
40	66.46	75.01	83.86	92.96	102.26	121.30
Interest only	60.00	70.00	80.00	90.00	100.00	120.00

EXAMPLE: $14,500 loan at 9% for 10 years
Read across the 10-year column to 9%. The annual payment is $155.82 per $1,000 of loan.

$$\frac{\$14,500}{\$\ 1,000} \times \$155.82 = \$2,259.39 \text{ annual payment}$$

TABLE 4. MONTHLY PAYMENT TO AMORTIZE A LOAN OF $100 EVEN-PAYMENT PLAN ANNUAL INTEREST RATE (CONVERTED MONTHLY)

Loan Length	6% $	8% $	9% $	10% $	12% $	15% $	18% $
5 years	1.93	2.03	2.07	2.12	2.22	2.38	2.54
10 years	1.11	1.21	1.26	1.32	1.43	1.61	1.80
15 years	.84	.95	1.01	1.07	1.20	1.40	1.61
20 years	.72	.83	.89	.96	1.10	1.32	1.54
25 years	.64	.77	.83	.90	1.05	1.28	1.52
30 years	.60	.73	.80	.87	1.03	1.26	1.51

NOTE: To calculate in 1,000s, move the decimal place to the right.

TABLE 5. MONTHLY PAYMENT TO AMORTIZE A LOAN OF $100 EVEN-PAYMENT PLAN ANNUAL INTEREST RATE (CONVERTED MONTHLY)

No. of Months	8% $	9% $	10% $	11% $	12% $	18% $
2	50.501	50.563	50.626	50.689	50.751	51.128
3	33.779	33.835	33.890	33.946	34.002	34.338
4	25.418	25.471	25.528	25.576	25.628	25.944
5	20.402	20.452	20.503	20.553	20.604	20.909
6	17.058	17.107	17.156	17.205	17.255	17.553
12	8.699	8.745	8.792	8.838	8.885	9.168
18	5.914	5.960	6.006	6.052	6.098	6.381
24	4.523	4.568	4.614	4.661	4.707	4.992
30	3.689	3.735	3.781	3.828	3.875	4.164
36	3.134	3.180	3.227	3.274	3.321	3.615
42	2.738	2.784	2.832	2.879	2.928	3.226
48	2.441	2.489	2.536	2.585	2.633	2.937

EXAMPLE: The monthly payments on a 12-month loan of $650 at an annual interest rate of 10% (converted monthly) would be 6.50 x 8.792 = $57.15

Other Charges

In addition to interest charges, or in place of them, other charges are often included in credit charges. These include carrying charges, service charges, investigation fees, appraisal charges, legal fees, disbursement costs, security payments, bonus charges, insurance premiums. Any of these items is, of course, a credit charge and raises the cost of credit.

CALCULATING THE COST OF CREDIT

The Ontario Consumer Protection Act, 1966, requires that the amount of credit finance charges, both in dollars and cents and as an annual "true" percentage rate, be stated for most time-payment transactions. While the Act includes all transactions for consumer goods, transactions such as the purchase of farm machinery and feed accounts are exempt from the provisions of the Act.[1]

However, various formulae can be used to calculate the real cost of credit where this information is not stated. The following formula, which can be used for all short- and intermediate-term loans with equal and evenly spaced payments, gives a reliable result of the real cost of credit.

$$\frac{\text{total financial charges}}{\frac{1}{2}\text{ original loan} \times \text{number of years}} \times \frac{\text{number of payments}}{\text{number of payments} + 1} \times 100 = \text{effective annual rate of interest}^{2}$$

Total finance charges — difference between amount actually borrowed and total amount paid to discharge loan including interest and all other costs, if any.

Original loan — actual loan received. Where there is a down payment, this amount must be deducted from the cash price to get the actual loan received. For discounted loans it is the amount received after interest is deducted.

Number of payments — total number of payments required to discharge the loan.

Number of years — the repayment term expressed in years or fractions of years, e.g. for a 9-month loan the fraction would be ¾ or 0.75; for an 18-month loan the fraction would be 1½ or 1.5.

Example

Add-on type interest: $1,200 loan, 12% interest plus a $12 service charge paid in 12 monthly instalments of $113.

$$\frac{156}{600 \times 1} \times \frac{12}{13} \times 100 = 24\%\text{ effective interest rate}$$

[1]Further information concerning this Act is available from the Consumer Protection Bureau, Ministry of Consumer and Commercial Relations, Parliament Buildings, Toronto.

[2]Effective interest rate as used in this publication is the percentage on the average principal outstanding, expressed on an annual basis. While very close to the rates produced by actuarial formulae, they must be considered as approximate effective interest rates.

LENGTH AND TYPE OF LOANS

Should a loan be repaid as quickly as possible? This will depend on the individual situation. The shorter term means less total costs but larger payments, as illustrated in Table 6.

For all loans, in general, and especially long-term ones, the following principles should be followed.

1. Obtain a loan that can be repaid without notice or bonus. This permits accelerated payment whenever the borrower finds it feasible. This is known as an open loan: try to secure all of your credit on this basis.
2. Get as long a term as possible. This means smaller payments and frees more capital for use within the business. This is particularly desirable for beginning farmers who face extra costs and lower revenues. A definite plan to accelerate payments in later years may often be advisable.

TABLE 6. ANNUAL AND TOTAL PAYMENTS FOR A $20,000 LOAN AMORTIZED AT 9% ON AN ANNUAL BASIS FOR DIFFERENT LENGTHS OF LOAN YEARS

Length of loan years	Annual payments[1] $	Total cost[1] $
10	3,116.40	31,164.00
20	2,191.00	43,820.00
30	1,946.80	58,404.00
40	1,859.20	74,368.00

[1]Principal and interest

Line of Credit

When you establish a line of credit, you figure out your credit needs for the year ahead, and then establish this with your lender. Let's assume that you and your lender set up a $10,000 line of operating credit for the year. You draw this out as you need it during the year until you have used up the $10,000. It has several advantages.

1. You plan your credit needs better and avoid spontaneous buying.
2. You do not have to negotiate a loan every time you want credit.
3. You can avoid higher-cost credit on many occasions.

Amortized vs Nonamortized Loans

An amortized loan is an even-payment plan. The amount of principal repaid increases with each payment while the amount of interest decreases by an equal amount. Accordingly, the total amount of each payment is constant.

In a nonamortized loan, a certain amount of principal is paid at each payment with interest on the balance remaining at the time.

The example in Table 7 compares the two payment plans for an identical loan. In the early years the amortized loan requires smaller payments than the nonamortized. This is generally considered an advantage, because in the early years capital is usually most needed in the business. The amortized loan requires more total interest because the borrower has the use of more principal longer. However the effective rate is always the same for both plans — in this example, 9% for the principal outstanding at any time.

TABLE 7. AMORTIZED vs NONAMORTIZED LOAN, ANNUAL PAYMENTS FOR A $20,000 LOAN REPAYABLE IN 20 YEARS AT 9% INTEREST

Amortized			Year(s)	Nonamortized		
Principal $	Interest $	Total $		Principal $	Interest $	Total $
391	1,800	2,191	1	1,000	1,800	2,800
426	1,765	2,191	2	1,000	1,710	2,710
465	1,726	2,191	3	1,000	1,620	2,620
506	1,685	2,191	4	1,000	1,530	2,530
552	1,639	2,191	5	1,000	1,440	2,440
849	1,342	2,191	10	1,000	990	1,990
1,307	884	2,191	15	1,000	540	1,540
2,004	180	2,184*	20	1,000	90	1,090
20,000	23,813	43,813		20,000	18,900	38,900

* Last payment slightly different

FARM CREDIT IN THE FARM BUSINESS

We have discussed in general some of the aspects of credit and the associated costs. Let us tie together some of these principles and ideas. Before applying for a loan, you should decide whether it is a service or productive type of investment you wish to make. Different investment opportunities on a farm will yield varying rates of return. The higher the rate of return the shorter the time to recover the investment costs.

Machinery and buildings in themselves do not produce income: they can be called service-type investments. Livestock, on the other hand, produce income: this is a productive-type investment. Service investments generally require a longer period to repay their investment costs than productive investments. Service or productive-type investments can trigger a chain reaction where further investment is required. For instance, more land may require more or bigger machines, more feed and feed storage space, and more livestock to utilize the additional feed.

The beginning farmer or one with overhead cost problems should take particular note of this and try to invest more in productive investments and less in service investments.

This raises a question. If you borrow the necessary funds to make a change in the farm operation, how much can you afford to invest in land, buildings, machinery or livestock?

A rough rule-of-thumb method is to figure out the expected profit and capitalize this at the going rate of interest. For example, in buying land, a budget indicates a return of \$50 per acre above all costs. Capitalizing at 8% means —

$$\frac{50}{8} \times 100 = \$625$$

which is the top price you can pay per acre, or \$62,500 for a 100-acre farm.

Capitalizing at 10% with the same returns

$$\frac{50}{10} \times 100 = \$500$$ which is the top price you can pay per acre or in this case \$50,000 for a 100-acre farm.

CREDIT GUIDELINES

1. What's the return? Can it be used profitably?
2. Can it be repaid? Have you matched credit to the job?
3. How much risk is there?
4. Have you shopped for credit, taking into consideration type of interest, interest rate, other costs, open loan?

Credit, properly used, is an important tool in money management that will contribute to increased profits and better farm living. Credit matters.

PRESENTING YOUR CREDIT PACKAGE

Many lending institutions have prescribed forms to be completed as part of the application for a loan. Ontario Ministry of Agriculture and Food Publication 379, *Money Matters,* is highly recommended as a workbook to determine credit needs. This publication is available through county agricultural offices.

Prepare the following statements in advance of a visit to your lender.

Operating Statement

An operating statement shows income and expenses which result in profits or losses of past years. This indicates past earning power and can be used to calculate debt repayment capacity. The change in inventory should be included.

Net Worth Statement

List all assets and liabilities of the farm business into current, intermediate, and long-term divisions to show the equity of the business: the record of your current financing, and the financial progress over the years.

Partial Budget

A partial budget of an anticipated change in the business will aid in determining how added costs and returns along with reduced costs and returns will affect your business.

Complete Budget

For the beginning farmer or for one making a major change, the complete budget is a forecast of the expected profitability of the total business after the development is complete before the change is actually made. If it will **not** work with the pencil using realistic figures, it is not likely to work in an actual situation.

Cash Flow

A cash flow statement helps to determine where the money is going to and coming from during the year.

Most farm records look at the past and tell us how our crops, livestock, and total farm business have performed.

The Cash Flow Statement, on the other hand, looks ahead and attempts to predict and plan for what will happen during the next year on a monthly basis. In planning a cash flow statement, totals from the previous year's records can serve as a guide. The amount of credit required per month can be planned and a line of credit established for the year.

Because an operating statement only includes income and expenses, it can create a false impression for credit purposes. A sound credit repayment plan and a balanced cash flow are essential to repay a lender. Thus, all sources of money flowing into the business from operating sales, capital sales, other income and borrowings from all sources must be considered. Similarly, all operating expenses, capital expenses and principal payments on borrowed money must be deducted (see Cash Flow Statement, Publication 379, *Money Matters*).

Debt Repayment Capacity

As discussed earlier, to determine your debt repayment capacity, deduct all sources of business and personal expense from all sources of income to see if your income is large enough to cover principal and interest payments with a margin for safety. If it does not, return to the planning stage — it's cheaper to take a paper loss than a real one.

As a guideline, Cornell University suggests that the percentage of total farm income committed to debt repayment is reflected as follows:

Under 15%	— low
15 to 25%	— safe
25 to 30%	— dangerous
Over 30%	— usually serious trouble

Action

Now that you are armed with the information about your farm business, select the appropriate lenders listed in the next section of this publication and you will be in a stronger position to bargain rather than beg for credit.

SOURCES OF CREDIT

LONG-TERM LOANS

Long-term loans are those which are usually drawn for a period greater than 10 years. Normally the most important source of this type are government-sponsored loans but life insurance, mortgage and trust companies do play a minor role in agricultural long-term loans. Private sources play an important role in long-term financing but with normally a five-year renewable clause that would allow for fluctuating interest and/or payment of outstanding principal at the end of each term.

FARM CREDIT CORPORATION

Where obtained

Local Farm Credit Corporation (FCC) offices which are located in agricultural centers across Canada. For the address of the local office, you may write to Farm Credit Corporation, 2323 Yonge Street, Toronto, Ontario M4P 2E2.

Purpose

Farm Credit Corporation may take loans to acquire farm land, assist certain relatives to acquire or improve farm land, purchase livestock, machinery and other items necessary for the efficient operation of the farm, erect or improve farm buildings or improve land, discharge liabilities, pay operating costs and family living costs of the borrower during the establishment of a farming enterprise, redeem farming corporation shares or purchase shares in a farming corporation, assist in development of a secondary nonfarming enterprise, and other purposes that may facilitate the efficient operation of the farm.

Qualifications

Applicants must be of legal age. Refer to the section on Types and Amounts of Loans for upper age limits. Individuals, partners, farming corporations and cooperatives may qualify. Canadian citizenship or landed immigrant status is a requirement.

Types and Amounts of Loans

Part II — Loans to Farmers (must be principally occupied in farming).
— Up to 75% of appraised value of farm lands (including buildings) to a maximum of $100,000 per single farming enterprise. No upper age limit.

Part III — Loans to Young Farmers (must be principally occupied in farming).
— Up to 75% of appraised value of farm lands and chattels to a maximum of $100,000 per single farming enterprise. Of legal age but under 45.

— Up to 90% of appraised value of farm lands and chattels to a maximum of $150,000 per single farming enterprise. Of legal age but under 35.
— Special low equity loans in excess of 90% of appraised value of farm lands and chattels may be made to those under 35 in certain circumstances.

Part IV — Loans to Establish Young Farmers (must demonstrate that farming will be principal occupation within 5 years of making the loan).
— Must be under 35 years of age.
— Up to 90% of appraised value of farm lands and chattels to a maximum of $150,000 per single farming enterprise.
— Special low equity loans in excess of 90% of appraised value of farm lands and chattels may be made in certain circumstances.

Security

A land mortgage will be taken on part or all of the lands owned and farmed. This may be a first mortgage or may be a subsequent mortgage if the existing mortgage(s) is (are) on favorable terms. When additional security is required for a Part III or a Part IV loan, a chattel mortgage is taken on part or all of the borrower's livestock and/or equipment.

Group life insurance is optional on all loans except for loans which are in excess of 75% of the appraised value of real estate. Those loans must carry life insurance for the amount exceeding 75% and the borrower must participate in the Corporation's post loan counseling program until the loan amount is reduced to the 75% level.

Appraisal

The appraised value of a property is determined by the Corporation's Credit Advisor. A $10 application fee must accompany each application and an appraisal fee of $2 per $1,000 of loan for Part II and $2.50 per $1,000 for Part III and Part IV loans is retained from loan funds when the loan is disbursed.

Interest on Loan

The interest rate on new loans is subject to adjustment every six months on April 1 and October 1. The rate remains in effect for the duration of the loan. The current rate is available at local offices.

Costs

Legal fees for placing the mortgage amount to 1¼% of loan on the first $20,000 and one-half of 1% on the remainder of the loan with a minimum of $75. In addition, the solicitor's disbursement must be paid. Borrowers must pay any additional cost in perfecting title or in transferring title.

If the borrower receives the benefit of the Corporation's post loan counseling service, a fee of $25 per year will be charged.

Repayment Terms

Loans are paid over terms of 5, 10, 15, 20, 25 or 29 years in equal annual or semiannual instalments combining interest and principal. Maximum term varies with the size and purpose of loan, the nature and size of the farming enterprise and the ability of the borrower to repay the loan. The Corporation will accept prepayments of all or any part of a loan, at any time without notice or bonus.

SMALL FARM DEVELOPMENT PROGRAM

THE LAND TRANSFER PLAN — SPECIAL CREDIT

The plan assists the small farmer to move out of agriculture or to expand his unit on an economic basis. Grants are available to assist eligible vendors to adjust to a new occupation or retirement.

The Special Credit is only available to purchasers who are buying from vendors eligible for a grant.

Where Obtained

Local FCC office. For the address of the local office, write to Farm Credit Corporation, 2323 Yonge Street, Toronto, Ontario M4P 2E2.

Purpose

The Small Farm Development Program assists eligible farmers with the purchase of farm land, with or without farm buildings, in order to establish a more viable operation.

Qualifications

Applicant must make farming his principal occupation, have adjusted assets of $75,000 or less, be capable of operating a larger farm successfully. Must be a Canadian citizen or have landed immigrant status. Must be the owner of a farm or a purchaser under an Agreement for Sale, or have been a tenant for at least three years.

Amount

Maximum amount available is $20,000 (less $200 down payment).

Security

The Farm Credit Corporation purchases the farm from the vendor and resells to the purchaser under an Agreement for Sale. Minimum down payment of $200. The only security required is the purchased farm.

Interest Rates and Costs

Interest rates are determined as applicable under the Farm Credit Act with the rate set as of the date Special Credit is offered. The rate remains in effect for the term of the Agreement for Sale. Costs include $10 for the Appraisal Fee and $25 for drawing up the Agreement for Sale.

Repayment Terms

Agreements can be repaid over terms of 5, 10, 15, 20 and 25 years in equal annual or semiannual instalments, which combine interest and principal. Full repayment of the Agreement accepted at any time without bonus.

VETERANS LAND ACT

Where Obtained

Regional Office, Veterans Land Administration, 480 University Avenue, Toronto, Ontario M5G 1V4. Applications obtained from field offices.

Purposes

Loans are made to established full-time or part-time farmers; to buy land and buildings; building materials; livestock and equipment; to make permanent improvements; to remove encumbrances; to repay debts.

Deadline

Veterans who are established under the Act and who may now wish to apply for any additional financial assistance for which they may be eligible, must apply therefore before March 31, 1977.

Amount

An established commercial full-time farmer may apply under Part III for financial assistance up to an amount which, when combined with his Part I debt, does not exceed in total the lesser of $40,000 or 75% of the security value of the land, basic herd livestock and farm equipment, as appraised by the Veterans Land Act (VLA).

Small Family Farm loans under Parts I and III are based on a maximum of $18,000 or 75% of the market value of the land, whichever is the lesser.

Security

Title is vested in the Director of VLA with veterans purchasing under Agreement of Sale.

Note: All full-time farming applicants must submit a proposed plan of operations and be established in an economic farm unit. For Small Family Farm applications, it is not necessary for the farm to be classed as an economic farm unit.

Payment Terms

Part III loans are fully repayable over a period not exceeding 30 years. The Part III interest rate is subject to adjustment each April 1 and October 1, but remains fixed for the duration of an approved loan. The current rate can be ascertained by contacting any VLA office.

INTERMEDIATE-TERM LOANS

There are many sources of intermediate-term credit. The most important are the banks, supply companies, and credit unions. The cost of credit, as well as the type of lending programs offered by these lenders, varies substantially. The lenders now have new and comprehensive programs providing intermediate credit, but they also make such credit available under the Farm Improvement Loans Act as described below. The key factors to watch in obtaining intermediate-term credit are the cost (type of interest, rate, etc), convenience in processing the application, the package plan offered by the lender to meet your operating as well as intermediate term credit needs, and other services offered by the lender. Consult your branch manager on their current program.

FARM IMPROVEMENT LOANS ACT

The Farm Improvement Loans Act was passed by Parliament in 1944 to facilitate the availability of short- and intermediate-term credit to farmers for almost every conceivable purchase or project for the improvement or development of a farm.

Where Obtained

All chartered banks are authorized to make loans under the provisions of the Farm Improvement Loans Act. In addition, loans may be made by credit unions, caisses populaires or other cooperative societies, trust, loan and insurance companies which have been designated as lenders under the Act by the Minister of Finance.

Purpose

Loans may be made to purchase agricultural implements, livestock, to purchase or install agricultural equipment or a farm electric system; for construction, repair or alteration of farm buildings including the farm home, barns, sheds and utility buildings, and in some cases cottages or tourist cabins on the farm; for purchase of additional land to enlarge an existing farm unit; for other projects for improvement and development including fencing, drainage, irrigation, wells and water supply systems, and breaking and clearing land; for major repair or major overhaul of agricultural implements or equipment where the cost of such repair or overhaul exceeds $400.

Who May Borrow

Only a farmer may borrow. It is not necessary in all cases to be the owner of a farm in order to be eligible. He must, however, be in possession of a farm and his principal occupation must be the operation of that farm.

Amount

The maximum amount that may be outstanding to a farmer at any one time under this program is $50,000. An applicant must provide a reasonable portion of the cost of the purchase or project from his own resources.

Security

Loans must be secured. Security is usually a preferential charge on the item purchased or a mortgage on the farm property. The applicant must also sign a promissory note. Lenders are expected to make loans with the same care that is required of a lending agency in the conduct of its ordinary business.

Costs

The maximum interest chargeable on a Farm Improvement Loan is the rate that is in effect on the date the loan is negotiated. The maximum interest rates that may be charged are determined semiannually and adjusted if necessary on April 1 and October 1, to reflect changes in interest rates. The current interest rate can be obtained from the lender.

Payment Terms

Terms are arranged between lender and borrower, taking into account the borrower's ability to repay; maximum repayment period is 15 years for land purchases, 3 years for trucks or motor vehicles of the station wagon type and 10 years for all other loan purposes.

FEDERAL BUSINESS DEVELOPMENT BANK

This Crown Corporation was established by Parliament in 1975 to succeed Industrial Development Bank which, since 1944, provided similar assistance to Canadian businesses in the form of both financial and management services.

Where Obtained

Branch offices are located in Ottawa, Kingston, Oshawa, Toronto, Downsview, Barrie, Hamilton, St. Catharines, Kitchener-Waterloo, London, Windsor, Sudbury, Sault Ste. Marie, Thunder Bay, Kenora, Chatham, Oakville, Owen Sound, Stratford, Timmins, Scarborough, and Etobicoke.

Purpose

Any sound project.

Qualifications

The Federal Business Development Bank (FBDB) will consider lending for agricultural purposes where funds are not available elsewhere on reasonable terms and conditions.

Amount

No fixed limits.

Security

Appropriate security on the assets of the farm business.

Appraisal

The officers of the FBDB assess management and earning prospects. The property is usually visited for on-the-spot discussions, security arrangements, etc. No fee is charged for the investigation of a proposal.

Costs

Rates on new loans change from time to time in keeping with the general level of interest rates in Canada. Current rates may be obtained by inquiry at the nearest branch of FBDB.

Payment Terms

Repayment of an FBDB loan is usually by monthly instalments of principal and interest. Length of repayment period is arranged to suit circumstances.

FARM SYNDICATES CREDIT ACT

This Act is administered by the Farm Credit Corporation.

Where Obtained

Local Farm Credit Corporation office. For the address of the local office, write to Farm Credit Corporation, 2323 Yonge St., Toronto, Ontario M4P 2E2.

Amount and Purpose

A syndicate may borrow up to 80% of the cost of farm machinery, buildings (including site and other improvements), and installed equipment, to a maximum of $15,000 per member or $100,000 whichever is the lesser amount.

Qualifications

A group of three or more farmers, the majority of whom have farming as their principal occupation, who have signed an agreement acceptable to the Farm Credit Corporation with respect to the purchase and use of machinery, equipment, or buildings which can be used profitably by them in their farming operation. Certain cooperative farm associations and farming corporations may qualify as syndicates for loans. Members may be farming independently or together in one operation.

Security

A promissory note signed by the members of the syndicate must be given as security. Additional security, such as a chattel and/or land mortgage, may be required for certain loans.

Costs

The interest rate on new loans is subject to adjustment every six months on April 1 and October 1. The rate remains in effect for the term of the loan. The current interest rate may be obtained from any FCC office. An initial charge of 1% of the amount of each loan, payable from loan funds, is made at the outset to help cover costs.

Payment Terms

Loans are repaid in equal annual or semiannual instalments of principal, plus interest, over up to 15 years for buildings and permanently installed equipment, and up to seven years for mobile machinery. All or part of the loan may be repaid at any time without notice or bonus.

ONTARIO YOUNG FARMER CREDIT PROGRAM — 1975

Where Obtained

Application forms are available at county, district and regional offices of the Ontario Ministry of Agriculture and Food. After consultation with local staff of the Ministry, the completed application is forwarded for consideration to a provincial review committee. If the loan application is recommended by the committee, the applicant may then proceed to negotiate a loan with the designated lender.

Purpose

The purpose of the program is to assist young farmers in establishing farm enterprises. Loans may be granted for farm-development purposes including the purchase of livestock, equipment and buildings.

Qualifications

The program commenced May 1, 1975, and residents of Ontario who intend to be farming for a minimum of 10 years may apply, provided they are the full age of 18 years and not more than 35 years of age on the date of application, and who, in the judgment of the Ministry, have sufficient experience and ability to competently conduct a farming operation. A written lease agreement is required when loans are issued for an applicant who is renting land. The amount, terms and repayment schedule of each loan will be determined, based on the repayment capacity of the borrower and as negotiated with the designated lender.

Security

Items purchased with the proceeds of the loan cannot be sold while the loan is outstanding, except with the lender's consent and on such conditions as the lender requires.

Appraisal

The loan application is appraised by a Provincial Review Committee appointed by the Ontario Ministry of Agriculture and Food.

Costs

Interest charged is at the current minimum commercial lending rate at the lender's head office, plus 1% and may fluctuate as the minimum rate changes.

Payment Terms

Loans are for periods up to 10 years. Interest will be payable at intervals of one year or less while principal payments will be determined in consultation with local office staff of the Ministry and as negotiated by the applicant with the lender.

GRAPE CONVERSION ASSISTANCE PROGRAM — 1975

Where Obtained

Application forms are available from the local offices of the Ontario Ministry of Agriculture and Food in Welland, Vineland and Ancaster, as well as the Ontario Grape Growers Marketing Board in St. Catharines. In consultation with local staff of the Ministry, application forms are completed which confirm that the designated location for the varieties being planted has satisfactory climate and soil type. A variety market acceptance form is obtained from a winery representative which certifies that the varieties being planted are acceptable for anticipated wine production in the future. Completed applications are forwarded to a Provincial Review Committee and if the loan is recommended, the applicant may then proceed to negotiate a loan with the designated lender.

Purpose

The purpose of this program is to assist grape growers of Labrusca variety grapes to convert to preferred varieties of grapes.

Qualifications

The pogram commenced on September 2, 1975, and applications may be made up to August 31, 1977, or until such time within this period that a maximum of 3000 acres has been reached. Loans are available up to $1500 per acre for costs which are associated with the conversion of Labrusca varieties to preferred varieties including the costs of removal and the purchase of vines, posts, wires and anchors. Loans are recommended based on the repayment capacity of the borrower.

Appraisal

The loan application is appraised by a Provincial Review Committee appointed by the Ontario Ministry of Agriculture and Food.

Costs

Interest charged during the 6th to 10th years of the loan is at the current minimum commercial lending rate at the lender's head office, plus 1%, and may fluctuate as the minimum rate changes.

Payment Terms

Loans are for periods up to 10 years, with principal and interest payments made in the 6th to 10th years. Interest payments in the 1st to 5th years will be made to the lender by the Ontario Ministry of Agriculture and Food on behalf of the borrower.

TILE DRAINAGE ACT

The Tile Drainage Act provides credit from the Province through the local township for farmers to purchase and install tile at moderate interest rates.

Where Obtained

Applications to be submitted to local municipal office. Local municipal council decides whether or not a loan is granted.

Amount and Purpose

The maximum amount that may be loaned is 75% of the total cost of the tile and installation in even multiples of $100. The money is to be used for financing the purchase and installation of tile.

Qualifications

Any owner of land in a municipality may apply. The local municipal council decides whether or not a loan is granted.

Security

The amount loaned under the Act is collected as taxes thereby making the land the security.

Costs

The interest rate is set from time to time by the Lieutenant Governor in Council. Current rates can be obtained at the local municipal offices or at any office of the Ministry of Agriculture and Food.

Payment Terms

The loan is collected in 10 equal annual instalments of principal and interest.

SHORT-TERM LOANS

This source of credit is usually of one year's duration. Short-term credit is used for such things as seed, fertilizer, feed, general operating expenses, and livestock which would be marketed within the year. This type of credit is usually on demand, but in some instances a revolving line of credit may be established. The amounts and payment terms vary according to the individual situation. The general interest rate, which changes according to the overall credit situation, may also vary according to the purpose and type of loan, the payment schedule, financial position of the borrower, management ability and credit record.

SOURCES OF SHORT- AND INTERMEDIATE-TERM CREDIT

THE CHARTERED BANKS

Short-term Credit

Short-term credit is usually extended for operating purposes, with the duration of the term dependent on the production cycle of the enterprise in question, usually to a maximum of 12 months. Purchases of feeder hogs and cattle are major areas where such short-term operating loans are applicable.

Intermediate Term Credit

Terms may range from 12 months to a maximum of 10 years and are normally applicable for the purchase of agricultural machinery, for the construction, repair or alteration of farm buildings and for various farm improvement projects. Farmers' requirements for this type of credit have arisen largely because of the transformation which has taken place in agriculture from a labor-intensive to a capital-intensive industry.

Collateral

Nowadays, the farmer's ability to carry on a successful operation is the most important single factor in loan appraisals. Section 88 of the Bank Act enables the banks to make loans for such purposes as the purchase of machinery on the security of such property and for the improvement and development of a farm on the security of agricultural implements. Farmers can also provide security for loans by way of assignments of proceeds, chattel mortgages and collateral mortgages. Or in cases where farmers have not yet demonstrated capacity to achieve results, the endorsement or guarantee of a relative or other financially responsible person may be pledged in support of a bank line of credit.

Repayment Terms

Farm loans are normally made on either an operating or a term basis. In some cases, such as loans to beef feedlot operators or cash crop farmers, a revolving line of credit is established without a specified maturity, but with an understanding concerning active fluctuations of the account. In such cases, the borrower and lender agree on the amount of operating credit needed for the year and this amount is available as required.

Where financing is required for longer periods, the repayment schedule is related to earning potential over the period concerned. In making these loans, bankers are especially interested in the long-range program of the farmer.

Costs

Costs of credit to farmers depend largely on the level of general interest rates which changes according to the financial climate in the country. Costs may also vary according to the purpose and type of the loan, the risks involved, the repayment schedule, financial position of the borrower, management ability, credit record and collateral pledged.

CREDIT UNIONS/CAISSES POPULAIRES

Credit Unions/caisses populaires are becoming a greater source of farm credit and make loans to farmers for any provident or productive purpose. A credit union/caisse populaire is a financial cooperative which serves the savings and borrowing needs of member owners. Members normally have a common bond of association. For farmers, the bond of association is normally that of living or working in the same area or community, or belonging to the same society, such as a local cooperative. Members save their money together and from the pool make low-cost loans to one another.

In general, loans are made for consumer purchases, mortgages, operating and intermediate purposes, with repayment terms and plans established to meet the needs of members. Maximum loan size depends on the resources, the amount of pooled savings of the individual credit union/caisse populaire.

Interest rates vary between credit unions and with credit conditions, but are about 12% per annum. Life insurance is generally included in the cost of the loan. Some credit unions/caisse populaires give annual interest rebates — return part of the loan interest charges — to borrowers, as a distribution of part of the surplus for the year's operations. Others prefer to lend at lower rates rather than use the interest rebate system.

The descriptive motto of the credit union/caisse populaire is that they are dedicated "Not to profit, not to charity, but to service."

SUPPLY COMPANY FINANCING

Most farm suppliers, such as feed and machinery dealers, now offer their own finance plans or plans operated by their respective companies. Deferred payment plans (often with no payments for up to six months or even longer) and the convenience factor have resulted in a large increase in this type of credit in recent years.

Supply company credit is both short- and intermediate-term, depending on the purpose. Feed, for example, would be short-term, while machinery would be intermediate-term. Interest and other charges put this type of credit in the medium to high cost range.

FINANCE COMPANIES

Finance companies make both intermediate and short-term loans to farmers. Purpose, terms, and costs vary accordingly to individual situations. In general, these loans are considered as a high cost form of credit used in high risk situations or where other financing is not available.

OTHER SOURCES

Life insurance and **mortgage trust companies** play a very minor role in agricultural loans for long-term purposes.

National Housing Act for new homes, administered through the Central Mortgage and Housing Corporation, provides for loans by approved lenders. These are private companies, such as chartered banks, life insurance companies, and trust and loan companies authorized by the Federal Government to lend under the terms of the Act.

Central Mortgage and Housing Corporation do not distinguish between rural and urban applicants.

Other institutions and companies are being formed from time to time to supply venture capital at varying rates of interest in keeping with risk involved.

PRIVATE CREDIT

An important source of credit is from private sources. Often the vendor of the farm will take back a first mortgage and in some cases a second mortgage.

Other individuals specialize in investing money in farm property securing their investment by a first mortgage. Rates of interest may differ from institutional rates.

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